

## Message Text

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ACTION ARA-10

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P R 191443Z FEB 75

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC PRIORITY 7688

INFO AMEMBASSY JAKARTA

AMEMBASSY LAGOS

AMEMBASSY QUITO

AMEMBASSY TEHRAN

USMISSION GENEVA

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E.O. 11652: N/A

TAGS: ETRD, ENRG, VE

SUBJECT: VENEZUELAN REACTION TO TRADE ACT: BEST VISIT

REF: (A) CARACAS 1743 NOTAL (B) CARACAS 1567

SUMMARY: THE VISIT OF ROBERT BEST, CHIEF ECONOMIST OF THE SENATE FINANCE COMMITTEE, WAS HIGHLY SUCCESSFUL IN THE OPINION OF THE EMBASSY. WITHOUT UNWELCOME PUBLICITY, A HIGHLY CONSTRUCTIVE EXCHANGE OF VIEWS WITH VENEZUELAN OFFICIALS TOOK PLACE AND THE PATTERN FOR A POSSIBLE SOLUTION TO THE U.S.-VENEZUELAN IMPASSE OVER THE TRADE LAW BEGAN TO EMERGE. END SUMMARY.

1. AFTER A BRIEFING BY ME AND MY STAFF ON MONDAY, FEB. 17, ROBERT BEST OF THE SENATE FINANCE COMMITTEE STAFF ATTENDED A LUNCHEON AT MY RESIDENCE, ALSO ATTENDED BY VALENTIN HERNANDEZ, MINISTER OF LIMITED OFFICIAL USE

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MINES AND HYDROCARBONS, JESUS FERNANDEZ, DEPUTY HEAD OF THE

VENEZUELAN FOREIGN TRADE INSTITUTE (ICE); DR. DARIO BAUDER, ALSO OF THE FOREIGN TRADE INSTITUTE AND DR. JOSE RODRIGUEZ ITURBE, CHAIRMAN, FOREIGN RELATIONS COMMITTEE, CHAMBER OF DEPUTIES, VENEZUELAN CONGRESS. LEADERS OF THE VENEZUELAN-AMERICAN CHAMBER OF COMMERCE (AMCHAM) AND MR. ULRICO REALE, WASHINGTON ATTORNEY FOR THE AMCHAM WERE ALSO IN ATTENDANCE.

2. AT MY REQUEST, MR. BEST GAVE THE GROUP A LOW-KEY BUT THOROUGHLY PROFESSIONAL EXPLANATION OF THE ORIGIN OF THE CLAUSE IN THE TRADE LAW EXCLUDING OPEC MEMBERS FROM ELIGIBILITY FOR GENERALIZED TARIFF PREFERENCES (GSP). BEST EXPLAINED THAT IN VIEW OF THE CURRENT VERY SERIOUS ECONOMIC ATMOSPHERE IN THE UNITED STATES IT WAS A "MIRACLE" THAT A COMPREHENSIVE BILL PROVIDING AUTHORITY FOR A SIGNIFICANT LOWERING OF TRADE BARRIERS WAS PASSED BY THE U.S. CONGRESS. HE SAID THAT GENERALIZED PREFERENCES WERE REGARDED BY THE CONGRESS AS A MEANS OF TRANSFERRING INCOME FROM INDUSTRIALIZED TO DEVELOPING COUNTRIES. HE RECOGNIZED THAT THE U.S. ADMINISTRATION HAD MADE VARIOUS COMMITMENTS TO ENACT GSP, BUT NEVERTHELESS THE CONGRESS REGARDED ELIGIBILITY FOR SUCH PREFERENCES AS A PRIVILEGE TO BE BESTOWED RATHER THAN A FIRM COMMITMENT TO BE APPLIED UNIVERSALLY. THE CONGRESS BELIEVED THAT OPEC COUNTRIES WHOSE SITUATION HAS IMPROVED SIGNIFICANTLY IN THE PAST SEVERAL YEARS CLEARLY WERE IN NO NEED OF ANY ADDITIONAL INCOME WHICH MIGHT RESULT FROM GSP. THE CONGRESS ALSO BELIEVED THAT ANY COUNTRY WHICH CONTRIBUTED TO A SERIOUS DISRUPTION OF THE WORLD ECONOMY SHOULD NOT BE MADE ELIGIBLE. MR. BEST COMMENTED PARENTHETICALLY THAT IT HAD BEEN SUGGESTED TO HIM BY SOME VENEZUELAN THAT A CASE COULD BE MADE THAT VENEZUELA HAD NOT BEEN GUILTY OF DISRUPTING WORLD TRADE. BEST WENT ON TO SAY THAT THE U.S. CONGRESS HAD NOT INTENDED THE OPEC CLAUSE TO BE IN THE NATURE OF A RETALIATORY ACTION. BEST ACKNOWLEDGED

GHAT THE STRONG REACTION OF LATIN AMERICAN COUNTRIES TO THE TRADE ACT HAD GIVEN THE ADMINISTRATION AND CONGRESS REASON TO RECONSIDER THE OPEC CLAUSE. HE SUGGESTED CAUTIOUSLY THAT THERE IS A POSSIBILITY OF AMENDATORY ACTION WHICH MIGHT PROVIDE GSP ELIGIBILITY FOR OPEC MEMBERS WHICH DID NOT PARTICIPATE IN THE OIL EMBARGO AND WHICH DO NOT IN THE FUTURE PARTICIPATE IN ANY EMBARGO OF ESSENTIAL COMMODITIES FLOWING IN WORLD TRADE.

3. IN A CONVERSATION WITH AN EMBASSY OFFICER DR. JESUS FERNANDEZ LIMITED OFFICIAL USE

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COMMENTED THAT UP TO NOW VENEZUELA HAS NOT MADE MUCH USE OF GSP PROVISIONS ALREADY PUT INTO EFFECT BY OTHER INDUSTRIALIZED NATIONS. HE SAID, HOWEVER, THAT VENEZUELA HAS DEFINITE AND VERY CONCRETE PLANS TO UTILIZE SUCH PREFERENCES IN THE FUTURE, INCLUDING TRADE PREFERENCES WHICH MIGHT BE PROVIDED BY THE U.S. HE REGARDED THE U.S. GSP PLAN AS CLEARLY SUPERIOR TO THE SCHEME OF THE EUROPEAN ECONOMIC COMMUNITY. HE SAID, HOWEVER, THA VENEZUELA IS DEEPLY CONCERNED ABOUT THE MANY PUNITIVE CLAUSES IN THE TRADE ACT WHICH

HANG LIKE A "SWORD OF DAMOCLES" OVER DEVELOPING COUNTRIES. WHEN ASKED ABOUT THE POSSIBLE GOV REACTION TO AMENDATORY LEGISLATION ALONG THE LINES SUGGESTED BY MR. BEST, FERNANDEZ SAID THAT THERE IS NO GOV POSITION ON THIS POINT BUT SOME OFFICIALS BELIEVE THAT VENEZUELA SHOULD INSIST THAT THE CLAUSE BE STRICKEN ENTIRELY SO THAT ALL OPEC MEMBERS WOULD BE ELIGIBLE FOR GSP. THIS WOULD BE DESIRABLE IN THEIR VIEW, IN ORDER TO MAINTAIN THE SOLIDARITY OF OPEC COUNTRIES IN THIS AND OTHER MATTERS. FERNANDEZ APPEARED TO APPRECIATE AN EXPLANATION OF THE ADMINISTRATION'S VIEW THAT NONE OF THE "PUNITIVE" CLAUSES HE REFERRED TO WOULD PRESENTLY BE APPLICABLE

EXCEPT THE OBLIGATORY OPEC CLAUSE. THE EMBASSY OFFICER ALSO EXPLAINED THAT A NEGATIVE VENEZUELAN REACTION TO AMENDATORY LEGISLATION ALONG THE LINES INDICATED WOULD PRESENT A SERIOUS PROBLEM. FERNANDEZ MADE NO FURTHER COMMENT ON THIS POINT.

4. BEST AND EMBASSY OFFICERS ALSO HAD AN OPPORTUNITY FOR A THOROUGH DISCUSSION OF THE ABOVE ISSUES WITH DR. DARIO BAUDER, WHO FIRST SUGGESTED THAT VENEZUELA MIGHT REACT NEGATIVELY TO AMENDATORY LEGISLATION (REFTEL B). IT APPEARED THAT BAUDER DID NOT UNDERSTAND THAT THE COUNTERVAILING PROVISIONS CONTAINED IN THE TRADE ACT WERE NOT

NEW. BAUDER APPEARED ALSO TO REVERSE HIS PREVIOUS POSITION BY INDICATING THAT THE AMENDMENT SUGGESTED BY BEST WOULD BE ACCEPTABLE TO VENEZUELA.

5. WHEN THIS QUESTION WAS RAISED SEPARATELY WITH THE MINISTER OF MINES AND HYDROCARBONS, HE INDICATED THAT THE FUNDAMENTAL PROBLEM PRESENTED BY THE TRADE LAW COULD BE RESOLVED THROUGH LIFTING THE BAN ON COUNTRIES SUCH AS VENEZUELA WHICH DID NOT PARTICIPATE IN THE OIL EMBARGO. HOWEVER, IN A RESPONSE TO A QUESTION BY BEST, THE MINISTER INDICATED THAT THERE IS ABSOLUTELY NO POSSIBILITY THAT THE GOV COULD AGREE TO A LOWERING OF PETROLEUM PRICES AS AN INFORMAL LIMITED OFFICIAL USE

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QUID PRO QUO FOR AN AMENDMENT OF THE TRADE ACT. THE MINISTER SAID HE WOULD BE FORCED TO RESIGN WITHIN 24 HOURS WERE HE SO FOOLISH AS TO ANNOUNCE SUCH A POSSIBILITY. THE MINISTER DID INDICATE FIRMLY, HOWEVER, THAT THE GOV DOES NOT FAVOR ANY FURTHER PRICE INCREASE FOR PETROLEUM.

6. COMMENT: THE EMBASSY BELIEVES THAT MR. BEST'S VISIT WAS HIGHLY SUCCESSFUL. WHILE AVOIDING THE RISK OF PUBLIC EXPOSURE, THE HIGHLY SENSITIVE TRADE ISSUE WAS REVIEWED IN AN INFORMAL AND HIGHLY CONSTRUCTIVE ATMOSPHERE. BEST PROVED TO BE AN EXCELLENT SPOKESMAN FOR THE U.S. POSITION. THE AMCHAM IS HIGHLY PLEASED WITH THE VISIT AND APPEARS TO BE DEDICATED TO THE PURSUIT OF ITS EFFORTS IN SUPPORT OF AMENDATORY LEGISLATION. SMETNANDEZ OF THE FOREIGN TRADE INSTITUTE APPEARED DEFINITELY INTERESTED IN A FURTHER DISCUSSION OF THE TRADE ISSUE WITH EMBASSY OFFICIALS AND

HAS SUGGESTED A FOLLOWUP MEETING NEXT WEEK. THE EMBASSY BELIEVES THAT DR. BAUDER'S VIEWS AS EXPRESSED IN REFTEL "B" PROBABLY REPRESENTED A PRELIMINARY OPINION AMONG ICE OFFICIALS WHICH HE HIMSELF MAY HAVE RETRACTED. IT IS APPARENT, AT LEAST, THAT MINISTER OF MINES AND HYDROCARBONS HERNANDEZ DOES NOT SHARE THIS VIEW. THE EMBASSY WILL PURSUE THIS QUESTION FURTHER AT ITS MEETING WITH ICE OFFICIALS AND IN TALKS WITH OTHER KEY GOV OFFICIALS.  
MCCLINTOCK

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